

# Kentucky Teachers' Retirement System

## Board of Trustees GOVERNANCE MANUAL



*Adopted March 16, 2009*

# Kentucky Teachers' Retirement System

## Board of Trustees Governance Manual

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## **Kentucky Teachers' Retirement System**

### **Board of Trustees Governance Manual**

Adopted March 16, 2009

#### **1. INTRODUCTION: Purpose of the Board Governance Manual**

The laws governing the operations of the Kentucky Teachers' Retirement System provide that the Board of Trustees is responsible for the general administration, management, and proper operation of the retirement system. In satisfying this responsibility, each board member acts in a fiduciary capacity. The obligation of a fiduciary is the highest duty under law. Each KTRS board member is, at all times, subject to the statutory and common law duties of a fiduciary and the board policies governing board member conduct.

This Board Governance Manual is a guide to assist the KTRS board in fulfilling its fiduciary responsibilities and to facilitate the organized, efficient, and cohesive functioning of the board. This Board Governance Manual is to be provided to all KTRS board members.

The Board Governance Manual, and all attached documents and policies, shall be reviewed and, if necessary, amended by the board at least every three years. However, the Board Governance Manual, and all attached documents and policies, shall be reviewed and amended by the board whenever circumstances warrant action.

#### **Vision and Mission Statement/Core Values**

The board, acting in its fiduciary capacity, is dedicated to seeing that KTRS accomplishes its vision and mission.

- The KTRS vision statement is: "As provided by law, KTRS will provide retirement security for the Commonwealth's retired educators."
- The KTRS mission statement is: "KTRS will achieve its vision by acting in the best interest of its participants, maintaining the financial security of the trust fund, and providing exceptional service to members, benefit recipients and employers."
- KTRS staff supports the vision statement and mission statement by exemplifying the following core values when serving the public: professionalism and integrity, exceptional teamwork, and excellence in service.

## **2. BRIEF OVERVIEW OF THE RETIREMENT SYSTEM**

History. Teachers' Retirement System of the State of Kentucky (KTRS) was established as a defined benefit retirement plan by legislative enactment during the 1938 Session of the General Assembly. Two years later, in 1940, the retirement system received funding by the General Assembly and became fully operational.








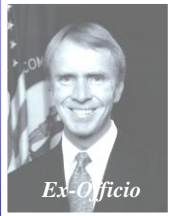
The establishment of KTRS followed a study conducted in 1936 by the University of Kentucky that found that teachers could not afford to retire, that school districts were experiencing continued employment of teachers who would have retired if able and therefore were often not performing effectively, that teachers were not allowed to participate in Social Security, and that Kentucky was finding it difficult to attract and retain teachers.

The mission of KTRS is to provide retirement security for the Commonwealth's retired educators. It is established and governed under the provisions of KRS 161.220 to 161.716 and KRS 161.990. It provides retirement annuities to qualifying members as well as survivorship benefits, life insurance benefits, disability retirement benefits and, since 1964, medical insurance benefits.

Established by Law. KTRS was established by the General Assembly under statutory law. The state laws governing the administration of KTRS are set forth in the "law book" attached in Appendix 1.

### 3. MEMBERS OF THE BOARD

**KTRS Board of Trustees**

			
BARBARA G. STERRETT <i>Chair, Lexington</i>	DR. JAY MORGAN, Ph.D. <i>Vice Chair, Murray</i>	ROBERT CONLEY <i>Paintsville</i>	LAURA ZIMMERMAN <i>Lexington</i>
			
RONALD L. SANDERS <i>Hodgenville</i>	RUTH ANN SWEAZY <i>Taylorsville</i>	TOM SHELTON <i>Owensboro</i>	TODD HOLLENBACH <i>State Treasurer</i>

*Photo  
Unavailable*

*Ex-Officio*

RUTH WEBB  
*Deputy Commissioner  
of the Dept. of  
Education*

07.08

#### Board Committees

##### Insurance

Ruth Ann Sweazy, Chair  
Barbara Sterrett  
Tom Shelton

##### Investment

Robert Conley, Chair  
Ron Sanders  
Barbara Sterrett  
Tom Shelton  
Jay Morgan

##### Legislative

Jay Morgan, Chair  
Barbara Sterrett  
Laura Zimmerman  
Tom Shelton, Alternate

##### Personnel

Laura Zimmerman, Chair  
Jay Morgan  
Barbara Sterrett  
Ron Sanders  
Robert Conley

##### Scholarship

Jay Morgan, Chair  
Ruth Ann Sweazy  
Laura Zimmerman  
Robert Conley

##### Nominating

Ron Sanders, Chair  
Ruth Ann Sweazy  
Robert Conley

##### Administrative Appeals

Ruth Ann Sweazy, Chair  
Laura Zimmerman  
Ron Sanders  
Tom Shelton, Alternate

##### Governance and Audit

Ron Sanders, Chair  
Jay Morgan  
Laura Zimmerman

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#### **4. ORGANIZATIONAL STRUCTURE**

##### **Staff**

- Gary L. Harbin, CPA      Executive Secretary
- Robert B. Barnes, JD      Deputy Executive Secretary of Operations & General Counsel
- Eric Wampler, JD      Deputy Executive Secretary
- Paul Yancey, CFA      Chief Investment Officer
- Kevin Carrico, CFA      Director, Investment Management
- Mark Whelan, CPA      Chief Financial Officer
- Tamela Biggs, JD      Staff Attorney
- Bill Leach      Director, Member Services & Acting Director, Member Benefits
- Jane C. Gilbert, CPA      Director, Retiree Health Care
- Glenn Tucker      Director, Information Technology
- Daryl Dunagan      Internal Auditor
- Phil Webb      Investment Accounting Manager

##### **External Service Providers**

###### Investment

- Becker Burke Associates
- Ennis Knupp + Associates

###### Actuary

- Cavanaugh Macdonald Consulting

###### Tax and Fiduciary Counsel

- Ice Miller

###### External Auditor

- Charles T. Mitchell & Company

###### Money Managers

- Todd Investment Advisors
- GE Asset Management
- UBS Global Asset Management
- Wellington Asset Management
- Galliard Asset Management
- Ft. Washington Advisors
- Chrysalis
- Kohlberg Kravis & Roberts
- Baring Asset Management LTD
- Baillie Gifford Overseas LTD
- Prudential Real Estate
- Molpus Woodland Group
- Hancock Timber Resource Group
- Capital South



**5. BOARD ORGANIZATION; BOARD CONDUCT; BOARD OPERATIONS;  
BOARD MEMBER ROLES AND RESPONSIBILITIES; EXECUTIVE  
SECRETARY ROLES AND RESPONSIBILITIES**

**A. Board Organization.**

- **Function and Composition.** The laws governing the operations of the Kentucky Teachers' Retirement System provide that the Board of Trustees is responsible for the general administration, management, and proper operation of the retirement system. The General Assembly has granted the retirement system all of the "powers and privileges" of a corporation to satisfy its statutory obligations. Among its many duties, the board is responsible for prudently investing members' assets, paying benefits due to retirees and beneficiaries, adopting administrative regulations and policies concerning the operations of the system, contracting for services and office space, keeping records and actuarial data, and publishing certain reports on the status of the system.

The KTRS board is established by KRS 161.250, which describes the board's composition and qualifications. The board consists of nine members as follows: the chief state school officer, the State Treasurer, and seven elected members. The chief state school officer and the State Treasurer are considered ex officio members of the board and may designate a person to represent them on the board. Elected board members serve four-year terms. The process of nomination and election of members is set forth in KRS 161.260.

Board members are not penalized for absences from their regular employment while attending authorized board meetings. Although board members serve without compensation, elected board members receive ninety dollars (\$90) each day that the board is in session, and the board may authorize a per diem of ninety dollars (\$90) for members representing the board on official business. Additionally, board members are reimbursed for reasonable and necessary expenses incurred while serving the system.

- **Oath of Office.** Within ten (10) days of appointment or election, each board member will be required to sign an oath pledging to support the U.S. and Kentucky Constitutions, and that the member will diligently and honestly administer the affairs of the board and will not knowingly violate, or permit to be violated, any provision of the law applicable to the retirement system. The oath, signed by the member, will be filed with the Kentucky Secretary of State.

**B. Board Code of Conduct.**

- **Fiduciary Duty.** Board members are trustees of the retirement system funds and as such are subject to strict fiduciary standards of conduct. The board members must act solely in the best interests of the participants and beneficiaries of the system and

for the exclusive purposes of providing them with benefits and defraying reasonable administrative expenses. The U.S. Supreme Court has concluded that this duty of loyalty means board members must wear only one hat as a trustee and not at the same time wear a second hat as a representative of outside interests. The board members are required to discharge their duties with respect to the system's funds with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

- Conflict of Interest and Confidentiality. Board members are prohibited by law from engaging in certain party-in-interest transactions (e.g., furnishing of goods or services between the system and a relative of a board member), and are prohibited from using assets of the system for their own interests. Board members are prohibited from receiving any consideration for their own personal account from any party dealing with the system in connection with a transaction involving the system's assets. Board members may not act on behalf of a party whose interests are adverse to the system, its participants or beneficiaries. Board members are prohibited from having any direct or indirect interest in the gains or profits of any board investment. Furthermore, Board members are prohibited by law from releasing information about KTRS or any of its members that would breach any duty to protect such information.

See the Conflict of Interest and Confidentiality Policy attached in Appendix 5.

- Kentucky Ethics Laws. Board members will abide by the ethical principles of law set forth in the Kentucky Executive Branch Code of Ethics, KRS Chapter 11A. In addition to adhering to the provisions set forth in the Kentucky ethics laws, board members are prohibited from soliciting or accepting payment of travel expenses, including expenses incurred with the travel for lodging, meals, food and beverages from anyone other than KTRS. Additionally, board members are also prohibited from accepting anything of value from persons or corporations doing business or seeking to do business with the system. See Appendix 2.

#### C. Board Operations.

- Meetings. Attendance at board meetings is considered to be an essential element of a board member's fiduciary duty. Therefore, members are expected to attend all meetings unless there are extenuating circumstances that prevent such attendance.
- Notice of regular meetings. Regular meetings of the board occur on the third Monday during the months of March, June, September, and December each year.
- Notice of special meetings. Special meetings may be called by the Chair upon giving reasonable notice to each member. Notice of a special meeting will be

delivered and posted in a conspicuous place at KTRS as soon as practicable but at least twenty-four (24) hours before the scheduled meeting. The business to be transacted at special meetings shall be specified in the notice of meeting.

- Quorum. The board must have a quorum of its members present at a meeting to conduct business and take official action. Five (5) members of the board constitute a quorum. Each member is entitled to one (1) vote. Four (4) votes or a majority of the members present at the meeting, whichever is the larger number, will be necessary for a decision by the board. A majority of the voting members of a committee constitute a quorum of the committee.
- Kentucky's Open Meetings Law. The law requires that meetings of the board, including committees of the board, be open to observation by the public. All meetings of a quorum of the members of the board, or a committee of the board, where public business is discussed or action is taken must be conducted in public. Meetings of the board must be open to the public at all times unless the subject of the meeting falls within one or more of the open meetings exceptions found in the statute. Any person may attend any public meeting and cannot be required to identify themselves in order to attend. See "Your Duty Under the Law," The Kentucky Open Records and Open Meetings Acts, Office of the Attorney General, July 2008, in Appendix 3.
- Robert's Rules of Order. When a question of parliamentary procedure arises, the most current edition of Robert's Rules of Order will be followed, unless Robert's Rules of Order are in conflict with KTRS statutes and regulations.

#### D. Board Member Roles and Responsibilities.

1. Basic Responsibilities of the Board. The board will undertake its oversight role with an emphasis on: outward vision rather than an internal preoccupation; encouragement of diversity in viewpoints; strategic leadership more than administrative detail; clear distinction of board and staff roles; collective rather than individual decisions; the future rather than past or present; and acting proactively rather than reactively.
  - The board will cultivate a sense of group responsibility.
  - The board will direct, control, and inspire the organization through the careful establishment of broad written policies reflecting the board's values and perspectives.
  - The board's major policy focus will be on the intended long-term impacts outside the organization, not on the administrative or programmatic means of attaining those effects.
  - The board will enforce upon itself matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the

continuance of governance capability.

- Continual board development will include orientation of new board members in the board's governance process and periodic board discussion of process improvement.
- Determine agency vision and mission. It is the board's responsibility to create and review a statement of mission and purpose that articulates KTRS goals and means.
- Contract for the services of an Executive Secretary to act as the "chief administrative officer" of the board.
- Provide proper financial oversight. The board approves the annual budget and ensures that proper financial controls are in place.
- Ensure legal and ethical integrity, adhere to fiduciary duties, and maintain accountability. The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.
- Ensure effective organizational planning. The board will be involved in the strategic planning process and assist in monitoring the system's goals.
- Support the Executive Secretary and assess his/her performance. The board should ensure that the Executive Secretary has the moral and professional support he or she needs to further the system's goals.

2. Responsibilities of Individual Board Members. Board members should:

- Be informed about KTRS' mission and policies.
- Attend board and committee meetings.
- Review agenda and supporting materials prior to board and committee meetings.
- Serve on committees and offer to take on special assignments.
- Keep up to date on developments in the pension and public fund arena.
- Follow conflict of interest, disclosure, and confidentiality policies.
- Assist the board in carrying out its fiduciary responsibilities.
- At all times meet high ethical standards to avoid even the appearance of impropriety.

3. Responsibilities of Board Chair and Vice Chair.

- The June regular meeting each year shall be the annual meeting, at which time as the first order of business, the board shall elect from its members a chair and a vice chair who shall take office immediately following their election.

The Chair shall:

- Preside over meetings of the board and may call upon the vice chair to preside during a meeting, or during the chair's absence.
- Call special meetings if necessary.
- Appoint all committee chairs as well as those who serve on such committees.
- Develop and review the agenda for board meetings with the Executive Secretary.
- Start and end meetings within scheduled time parameters.
- Set time-line for each agenda item.
- Keep discussions focused on topic.
- Help clarify participants' comments, summarize often so the board can see and feel the progress being made and so that staff has clear direction on decisions made and any necessary follow-up.
- Elicit full participation from all members of the board.
- Request additional information when chair feels board needs more data to make a decision and ensure appropriate staff follow-up on agenda items.
- Periodically consult with board members on their roles and help them assess their performance.

The Vice Chair shall:

- Perform the duties of chair in the absence of the chair or upon the chair's incapacity or request to act.
- Succeed the chair in the event of resignation, retirement, or death of the chair.
- Participate as a vital part of the board leadership.

4. Responsibilities of Committee Chair. Each Committee Chair shall:

- Chair committee meetings and provide leadership to the committee.
- Develop and review agenda for committee meeting with the Executive Secretary or appropriate staff and set tone for the committee work.
- Report to the full board on committee's decisions, policies, and recommendations.

E. Executive Secretary Roles and Responsibilities for Meetings.

- Meeting Agenda. The Executive Secretary, in coordination with the board chair and committee chairs, will prepare, and distribute a written agenda for all meetings of the board and committees. The agenda items and related materials for board and committee meetings will generally be distributed to board members in advance of the

meeting. In addition, the agenda and general action items will be posted to the system's public website.

- Routine Reporting. A system of routine reporting will be developed to monitor the performance of the system and ensure that the board is carrying out its fiduciary responsibilities. The following written reports and oral reports will be provided regularly to the board:
  - Executive secretary reports providing a status of major issues and system activities;
  - Investment reports, including asset allocation and performance reports;
  - Comprehensive annual financial report, annual operating budget, and interim financial reports;
  - Retirement, Disability, and Death reports;
  - Committee reports;
  - Annual actuarial valuation and other reports;
  - Legislative reports;
  - Litigation status reports;
  - Strategic plan progress reports; and
  - Potential material issues or problems on a timely basis to the board.

## **6. BOARD COMMITTEES AND ASSIGNMENTS**

The board creates committees to assist the board in effectively fulfilling its fiduciary responsibilities. All committees report to the board. Any policies developed by committees are to be recommended to the full board for the board's approval. Appointments of the committee chairs and appointments of members to the regular committees are concurrent with the board chair that makes the appointment. The chair shall announce committee appointments for the coming year preferably in July but no later than the regular September meeting. The composition of the committees shall remain the same until the new appointments. Unless otherwise stated for a shorter period in the appointment, temporary or special committee appointments shall be concurrent with the board chair that makes such appointment.

There are currently eight (8) standing committees of the board. The chair may appoint temporary or special committees for such purposes as the chair deems necessary.

The standing committees of the board are as follows:

- A. Insurance Committee. The Committee will consist of three (3) members appointed by the Chair and will act on behalf of the board in fulfilling its oversight responsibilities for administration of retiree health benefits. The Chair will designate the committee chair.
  1. Meetings. The Committee will meet annually or more frequently, if necessary. The Committee will meet on the second Thursday in September.
  2. Authority. See KRS 161.675.

- B. Investment Committee. The Committee will be composed of seven (7) persons appointed by the board and will act on behalf of the board on investment related matters in fulfilling its oversight responsibilities for the prudent investment of retirement system assets to achieve long-term funding goals.
1. Meetings. The Committee will meet quarterly or more frequently, if necessary. The Committee will meet on the first Friday of February, May, August, and November.
  2. Authority. See KRS 161.430, 102 KAR 1:175, and Strategy for Implementation of Investment Policy Established by Administrative Regulations.
- C. Legislative Committee. The Committee shall consist of three (3) members appointed by the Chair and will act on behalf of the board in fulfilling its oversight responsibilities for reviewing proposed legislation. The Chair will designate the committee chair.
1. Meetings. The Committee will not have regularly scheduled meetings and shall convene as needed to review proposed legislation.
  2. Authority. See KRS 161.250.
- D. Personnel Committee. The Committee shall consist of five (5) members appointed by the Chair and will act on behalf of the board in fulfilling its oversight responsibilities to evaluate the Executive Secretary. Also, when necessary, the Committee will screen candidates and make a recommendation to the Board for hiring an Executive Secretary. The Chair will designate the committee chair.
1. Meetings. The Committee will not have regularly scheduled meetings and shall convene as needed to evaluate the Executive Secretary.
  2. Authority. See KRS 161.340(1), (2) and 102 KAR 2:025.
- E. Scholarship Committee. The Committee shall consist of four (4) members appointed by the Chair and will make recommendations and reports to the board concerning the Junita Losey Scholarship Fund. The Chair will designate the committee chair.
1. Meetings. The Committee will not have regularly scheduled meetings and shall convene as needed to act on the scholarship fund.
  2. Authority. See KRS 161.250.
- F. Nominating Committee. The Committee shall consist of three (3) members appointed by the Chair and will act on behalf of the board in fulfilling its responsibilities set forth in KRS 161.260.
1. Meetings. The Committee will not have regularly scheduled meetings and shall convene as needed to satisfy its obligations.
  2. Authority. See KRS 161.260.

- G. Administrative Appeals Committee. The Committee shall consist of three (3) members appointed by the Chair and will act on behalf of the board in fulfilling its responsibilities to act on appeals as set forth in KRS 161.250(2) and KRS Chapter 13B. The Chair will designate the committee chair.
1. Meetings. The Committee will not have regularly scheduled meetings and shall convene as needed to act on appeals.
  2. Authority. See KRS 161.250 and KRS Chapter 13B in Appendix 4.
- H. Governance and Audit Committee. The Committee shall consist of three (3) members appointed by the Chair and will act on behalf of the board in fulfilling its oversight responsibilities for governance processes and financial reporting processes.
1. Meetings. The Committee will not have regularly scheduled meetings and shall convene as needed to satisfy its obligations.
  2. Authority. See KRS 161.250.

## **7. BOARD POLICIES.**

- Ethics Policy: Board members will abide by the ethical principles of law set forth in the Kentucky Executive Branch Code of Ethics, KRS Chapter 11A. Appendix 2.
- Conflicts of Interest Policy: Appendix 5.
- Communication Policy: Appendix 6.
- Trustee Education Policy: Appendix 7.
- Board Travel and Board Expense Reimbursement Policy: KRS 161.290 provides that the Board shall be reimbursed "necessary expenses" for official business of the system. The Board will follow the provisions of the State Travel Policy for reimbursement of travel expenses. See Appendix 8.
- Investment Statute, Regulation, and Strategy for Implementation of Investment Policy Established by Administrative Regulations: Appendix 9.

## **8. SERVICE PROVIDER SELECTION**

The Executive Secretary or his/her designee will negotiate and execute all agreements in connection with service providers retained by the system. All contracts will be reviewed by the General Counsel or his/her designee as to form and legal sufficiency prior to execution. All service providers will be subject to regular monitoring of performance and periodic reviews, as appropriate, throughout the term of their contracts. The Board, or particular Committee of the Board, will establish the relevant standards for service provider selection, which will be implemented by staff.



## **9. DISASTER RECOVERY PLAN**

The KTRS disaster recovery plan will be implemented by the appropriate staff and reviewed frequently for relevance and appropriateness.

## **10. STRATEGIC PLANNING**

To systematically plan for the immediate and long-term challenges and needs of the retirement system staff will engage in an annual strategic planning process. The Executive Secretary will initiate the strategic planning process and report to the board. The strategic plan will generally cover a 3-5 year period. The board will be responsible for:

- Providing management with input on the strategic plan, including goals and strategic initiatives;
- Approving the final strategic plan and operating budget to support the plan; and
- Monitoring the implementation of the strategic plan

Staff will provide periodic updates to the board. The strategic plan will be modified from time to time as needed.